Mark to Market Discussions

BPA PBL Customer Workshop

March 7, 2002

Issue: Due to possible large augmentation deficits, BPA may have to "mark to market" large quantities of energy. Market quotes are readily available for small quantities of power, typically 25 aMW up to around 200 aMW. Beyond 200 aMW, there are very few parties, if any, willing to give quotes. Also, as the size of the quote increases the corresponding price typically increases as well. Thus, the issue is what to do for market quotes if Bonneville must mark to market large quantities of power.

Current: For the last two LB-CRAC look forward calculations, BPA has had a relatively small augmentation deficit to be marked to market. For the last LB-CRAC look forward, BPA used an internally derived mark to market. The internal mark to market is derived from broker quotes as well as other market information. BPA is currently documenting quotes as well as other market information used to derive the mark to market each day for the last 5 days of the month.

Some possible options for deriving the mark to market are:

Option 1: Use a large marketer, or broker, to acquire pricing for large quantities of power. A large entity may be able to secure large quantities of power through various transactions for a fee. BPA would pay the entity to "find" the large quantity of power and corresponding price to meet the large augmentation deficit. The fee would be included in the LB-CRAC calculation as a cost.

Option 2: BPA acquires quotes for as much power as possible. Some agreed-to form of escalation would then be applied to the largest quote both in terms of prices and quantity until the augmentation deficit was fulfilled.

Option 3: Pay a third party such as PIRA to do an analysis on the effects on the market when a single entity purchases large quantities of power. The analysis could then be applied to the augmentation deficit and market prices to derive a price to be used in the LB-CRAC calculation. The associated costs would be included in the LB-CRAC calculation.

Option 4: Use one of the above mentioned options (or another option) for Fiscal Year 2003. Then, at the June 2004 LB-CRAC workshop, BPA and the customers, revisit the option used for Fiscal Year 2003 to determine if modifications need to be made.

Others?

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March 21, 2002

Draft Recommendation:

Use Current method when net short position is equal to, or less than, 100 aMW. The current mark to market is done on a daily basis based on quotes from brokers as well as other market information. As much documentation as possible would be provided. Prices from the last five trading days would be averaged to determine the mark to market price. One advantage of this method is that the mark to market is done daily thus the market would not be aware of BPA's net short position.

If the net short position is greater than 100 aMW, BPA will attempt to acquire price quotes for as much amount of power as possible via another marketing entity (ies) or counter party (ies). Since brokers do not like to provide quotes for large amounts of power, quotes from other marketing entities would be attained. This most likely would only occur once or twice during the last five trading days of the period. It is assumed that any fees associated with this method would be melded into the costs of the power. It is also assumed that the fee will change based on the market condition so at this time the costs are unknown.

If BPA is not able to attain enough price quotes for the entire amount of power needed from other marketing entities, BPA would meet with the customers to work out an agreement on a reasonable extrapolation of the quotes received. BPA would supply all quotes for all the power and then BPA and the customers would work together on a means to extrapolate the quotes and associated energy amounts.